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FOR THE PRESIDENT FROM CHARGE D'AFFAIRES JOHN M. KOENIG

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TAGS: [GM](#) [MARR](#) [NATO](#) [PGOV](#) [PHUM](#) [PREL](#)
SUBJECT: SCENESETTER FOR THE PRESIDENT'S BILATERAL MEETING
WITH CHANCELLOR MERKEL ON THE MARGINS OF THE NATO SUMMIT

BERLIN 00000345 001.2 OF 002

Classified By: Charge d'Affaires John M. Koenig for reasons 1.4 (b) and (d)

¶1. (S/NF) Chancellor Merkel will be focused on a productive, substantive meeting when you visit Baden-Baden April 3. Germany holds the greatest untapped potential in Europe for our transatlantic agenda; unlocking it will take sustained effort by the Administration, and the payoff will not be immediate. What is most on Merkel,s mind is her political future, six months before national elections, with her poll numbers wobbling and her coalition increasingly dysfunctional. Germany,s capacity to act is constrained by (1) the short-term demands of domestic politics (about which we can do little), (2) the slow pace of change in public support for a German leadership role (a focus of our engagement), and (3) the constant demands of the economic crisis. Your meeting provides an opportunity to map out key priorities with Germany for the remainder of Merkel,s current term and beyond.

Merkel,s Own Crisis -- Leadership

¶2. (S/NF) Merkel is methodical, rational, and pragmatic -- qualities that propelled her to stratospheric levels of public support early in her tenure, when she presided over a recovering economy and a successful presidency of the European Union. The past year has been less kind, and the almost exactly equal split in the German electorate between left and right is re-emerging as elections approach. Merkel now faces a Gordian knot of rising unemployment, economic crisis, and domestic political dissatisfaction at a time when she can least afford a wrong move. The effectiveness of Merkel,s Grand Coalition government is declining as her Christian Democrats (CDU) and their Social Democratic (SPD) partners begin in earnest their campaigns for the September 2009 election. The Chancellor,s edge over the rival SPD, led by Foreign Minister Frank-Walter Steinmeier, is diminishing. When cornered, Merkel can be tenacious but is risk averse and rarely creative. This suggests she will remain a very circumspect Ally until the election.

¶3. (C/NF) The collapse of German exports and industrial activity has shocked Chancellor Merkel and her advisors.

They had thought Germany would escape the worst of the world recession thanks to its competitive position in emerging markets. In the New Year, Merkel and Finance Minister Peer Steinbrueck (SPD) rushed a relatively robust stimulus program through the Bundestag that is timed to counter a surge in unemployment just before the September elections. Like most Germans, they doubt further deficit spending will generate lasting growth, and fear too large a stimulus may cause stagflation at home and dangerous new global imbalances. Merkel and Steinbrueck remain bitter at the brush-off they allegedly received during the last administration when they advocated tighter financial oversight. Tougher regulations, they insist, are essential to restore confidence in the banking system and get credit flowing again, thus creating the pre-conditions for a sustainable recovery.

¶4. (C/NF) Hoping to escape responsibility for the economic crisis, Merkel has issued public critiques of U.S. recovery policy that exaggerate the differences between Washington and continental Europe. In fact, Germany faces many of the same difficult choices as the U.S. The Chancellor is expected to put forward a further stimulus package later this year. Her government has bailed out big banks while holding firm on state aid to ailing firms like Opel. The conventional wisdom in Germany is that Opel could be rescued with minimum state aid if only it could be separated from GM, but in fact there is no viable business plan for the firm to stand on its own. The Chancellor is surrounded by bad options: an interventionist approach would further alienate economic conservatives in her CDU (who are already defecting in droves to the free-market FDP); if she does nothing, Steinmeier and the SPD will harvest the goodwill of centrist voters for trying to save Opel. Merkel has not been above shifting responsibility to the USG and General Motors, which she and

BERLIN 00000345 002.2 OF 002

the German media unfairly blame for bleeding Opel dry. In the end, Merkel's government will likely be forced to prop up at least parts of the automaker.

Increasing Political Caution during Campaign

¶5. (S/NF) Merkel and Steinmeier are pragmatists; on foreign policy, in particular, there is more that unites them than divides them. But the centrifugal forces of the election campaign and the growing mistrust between the CDU and SPD make it increasingly difficult for them to agree on any big ideas about Germany's role in the world or its relations with the United States. Buffeted by events, Merkel is struggling to define a convincing vision for Germany; competence is the sole component at this point. She is blessed that Steinmeier, her principal competitor, faces even greater difficulties. His party has lost its bearings in the Grand Coalition and is plagued by internal divisions. Steinmeier himself is a technocrat and a latecomer to electoral politics -- his shortcomings on stage are significant. Steinmeier has tried to make up ground on Merkel by publicly identifying himself with the new U.S. Administration. However, his ability to deliver on policy initiatives without the Chancellor's political support is limited.

¶6. (C/NF) Afghanistan is an example. Merkel has been cautious throughout her chancellorship and has doggedly resisted real or perceived pressure for Germany to take on a larger military role. She and Steinmeier both have supported the Comprehensive Approach, but the Chancellor's CDU, in the face of public skepticism, is reluctant even to consider increasing police or civilian support. Steinmeier and the SPD have been more forward-leaning, but they cannot deliver on their own. You should emphasize that at the moment the U.S. is not seeking significant additional military forces from Germany, but that every member of the international community will need to do much more (e.g., training security

forces and providing civilian assistance) if we are to be successful.

Policy Opportunities on Russia and Iran

¶17. (C/NF) Germany should play a central role with the U.S. in defining a coordinated western Russia policy that resets the relationship without retreating from our values. The winter gas crisis made Germans rethink Russia,s reliability as a supplier, but the lack of alternatives and the desirability of gas as a clean energy source have left the government resigned to dependency on Russia in the near-to-medium term. On energy as well as Georgia, neither Merkel nor Steinmeier has identified areas where German policy steps could help create a more persuasive set of incentives for Russia to integrate further into rules-based relationships and institutions. Meanwhile, Germany is concerned about threats to economic and social stability in Central and Eastern Europe, but prefers EU and IMF approaches to limit its share of the bill.

¶18. (C/NF) Both Merkel and Steinmeier welcomed your Nowruz address to the Iranian people and government. They support the U.S. investment in the diplomatic track and agree that Germany and the EU need to invest in the economic pressure track. Germany,s close ties to Israel include an imperative to defend Israel,s right to exist and to play an active role in international non-proliferation efforts toward Iran. Merkel will be looking to the meeting to gain a better understanding of how you see the USG Iran policy unfolding and what role we need Germany to play.

¶19. (U) Mr. President, Mission Germany is honored to support you on your first overseas trip as President, and we look forward to welcoming you in Baden-Baden.
Koenig